

Fruitport Community Schools

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2006

Fruitport Community Schools

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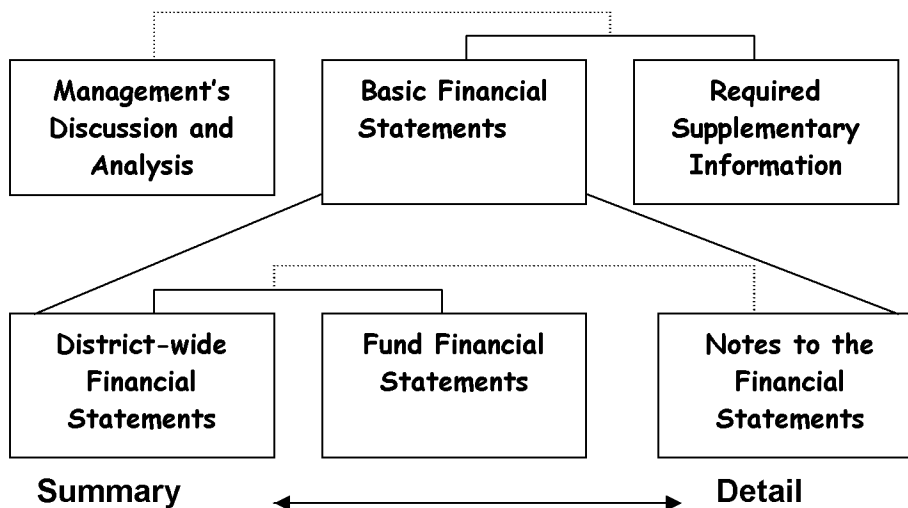
**Fruitport Community Schools, Fruitport, Michigan
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

The discussion and analysis of the Fruitport Community School's financial performance provides an overall review of the school district's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to provide, in layman's terms, a look at the district's performance, including past and current position. Readers are encouraged to consider all the information that is presented.

Financial Highlights

This annual report consists of three parts: Management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The financial statements also include notes that explain some of the information in the statements and provide more detail data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district's budget for the year. Figure A-1 below shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1
Fruitport Community Schools
Organization of Annual Financial Report**



The basic financial statements include two kinds of statements that present different views of the district. The two kinds of statements are: 1) District-wide financial statements; and, 2) Fund financial statements.

Fruitport Community Schools, Fruitport, Michigan
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

District-wide Financial Statements

These statements are full accrual basis statements and provide information about the district's overall financial status. The full accrual basis means that all assets and liabilities of the District are recorded, regardless of when related cash is received or paid. This is the basis of accounting utilized by most private sector companies. These financial statements are used to help determine whether or not the district is better off or worse off as the result of the year's activities. It is important to keep in mind that while we are required to report financial information in this manner, it is not the goal of the District to generate a profit. Financial reports are just one indicator of the overall health of the District.

The *Statement of Net Assets* reports all of the district's assets and liabilities, both short-term and long-term, regardless if they are "currently available" or not. The difference between total assets and total liabilities is net assets, an indicator of a school district's financial health. Capital assets and long-term obligations of the district are reported in this statement.

All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid. The total revenue less the total expense is referred to as the operating results for the current year. Sustained, positive operating results may indicate improving financial health, while decreasing operating results may indicate deteriorating financial condition.

The two district-wide statements report the district's net assets and how they have changed. Net assets – the difference between the district's assets and liabilities – is one way to measure the district's financial health or position.

- Over time, increases or decreases in the district's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the district's overall health, one needs to consider additional non-financial factors such as changes in the district's property tax base, the quality of the education provided, and the condition of the district's buildings.

In the district-wide statements, the district's activities are classified as governmental activities. This includes most of the district's basic services, such as regular and special education, food service, athletics, transportation, and administration. Property taxes and state aid finance most of these services.

Fruitport Community Schools, Fruitport, Michigan
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Fund Financial Statements

The fund financial statements focus on individual parts of the district, reporting the district's operations in more detail than the district-wide statements. The fund level statements are reported on a *modified accrual basis* and include only current assets and current liabilities of the District. Only those assets that are "*measurable*" and "*currently available*" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the district's major instructional and instructional support activities are reported in the *General Fund*. Additional activities are reported in their relevant funds including: Special Revenue Funds for Food Service, Athletics and Community Service (including child care programs), Debt Service Funds, Capital Project Funds, and Fiduciary Funds.

In the fund financial statements, capital asset purchases are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Financial Analysis of the District as a Whole
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The district's net assets as of June 30, 2006 were \$8.2 million. Included in this amount is \$5.3 million of unrestricted assets. This represents the accumulation of all past years' operations of the district. Unrestricted net assets of \$5.3 million equates to approximately 16% of total annual district-wide expenses, or less than three months of operational costs. District representatives will need to work hard over the next several years to closely monitor expenditures and strive to maintain the total unrestricted assets so that the district does not have to borrow money to meet payroll at the beginning of the year before money is received from the state. Figure A-2, on the following page, shows a condensed breakdown of the net assets.

The largest portion (64%) of the district's net assets reflects resources that are unrestricted as to how they may be used. The remaining net assets represent investments in capital assets (e.g., land, buildings and improvements, and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The district uses these capital assets to provide services to students; consequently, these assets are not available for spending. Although the district's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. A portion of the debt used as a decrease to capital assets relates to the Durant bonds, which are paid directly by the State of Michigan and local bonds, which are paid from local taxes.

**Fruitport Community Schools, Fruitport, Michigan
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

**Figure A-2
Condensed Statement of Net Assets**

	Governmental Activities		Total Percentage Change
	<u>2006</u>	<u>2005</u>	<u>2005-06</u>
Current assets	\$ 10,215,333	\$ 14,422,956	-29%
Noncurrent assets	<u>21,834,750</u>	<u>18,206,903</u>	20%
Total assets	32,050,083	32,629,859	-2%
Current liabilities	5,253,169	5,117,990	3%
Noncurrent liabilities	<u>18,568,156</u>	<u>19,075,908</u>	-3%
Total liabilities	23,821,325	24,193,898	-2%
Net assets			
Invested in capital assets, net of related debt	2,689,972	2,742,227	-2%
Restricted	266,805	305,110	-13%
Unrestricted	<u>5,271,981</u>	<u>5,388,624</u>	-2%
Total net assets	<u>\$ 8,228,758</u>	<u>\$ 8,435,961</u>	-2%

The net assets of the district decreased by \$207,203 during the 2005-06 year. Figure A-3 shows the breakdown of this change. The Statement of Activities presented later in the government-wide financial statements, provides greater detail on the district's annual activity. The cost of the district's governmental activities for the year was \$32.2 million. However, the amount that the district's taxpayers ultimately financed for these activities was only \$24.7 million because \$2.3 million of the cost was paid for by those who benefited from the programs, and \$5.2 million was paid for by other governments and organizations who subsidized certain programs with grants and contributions. The remaining "public benefit" portion was paid for with property taxes, state pupil foundation aid, investment earnings, and other miscellaneous revenues.

Fruitport Community Schools, Fruitport, Michigan
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Figure A-3
Statement of Net Assets from Operating Results

	Governmental Activities		Total Percentage Change
	<u>2006</u>	<u>2005</u>	<u>2005-06</u>
Revenues			
Program Revenues			
Charges for Services	\$ 2,348,757	\$ 1,933,030	21.51%
Operating grants and contributions	5,231,010	5,320,110	-1.67%
General revenues			
Property Taxes	4,126,030	3,829,251	7.75%
State formula aid	19,886,549	19,781,294	0.53%
Other	404,421	244,331	65.52%
Total Revenues	<u>31,996,767</u>	<u>31,108,016</u>	2.86%
Expenses			
Instruction	17,541,891	16,915,101	3.71%
Support services	11,196,750	10,937,917	2.37%
Community services	950,077	990,095	-4.04%
Food services	924,805	913,266	1.26%
Athletics	466,134	445,407	4.65%
Interest on long-term debt	1,036,841	862,800	20.17%
Unallocated depreciation and amortization	87,472	79,111	10.57%
Total Expenses	<u>32,203,970</u>	<u>31,143,697</u>	3.40%
Change in net assets	(207,203)	(35,681)	480.71%
Beginning net assets	<u>8,435,961</u>	<u>8,471,642</u>	
Ending net assets	<u>\$ 8,228,758</u>	<u>\$ 8,435,961</u>	

Financial Analysis of the District's Funds

A substantial portion (\$20,846,794) of the district's governmental fund revenues is received from state sources. This means that the financial stability of the district rests primarily with the economic health of the State of Michigan. Interest income significantly increased this year due to higher interest rates and an increase in cash flow, which was a result from summer tax collection. The fees and charges include special education transportation reimbursement and Medicaid service fees.

**Fruitport Community Schools, Fruitport, Michigan
Management's Discussion and Analysis
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Figure A-4 depicts the breakdown of the sources of revenue and other financing sources for the district's governmental funds which totaled \$32,029,394.

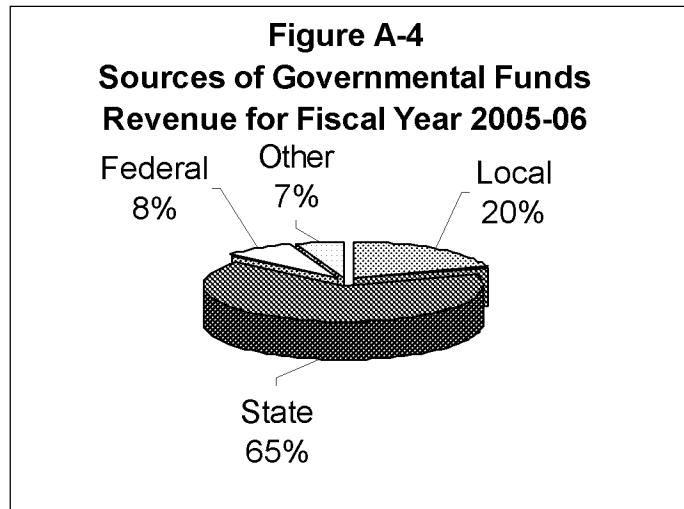
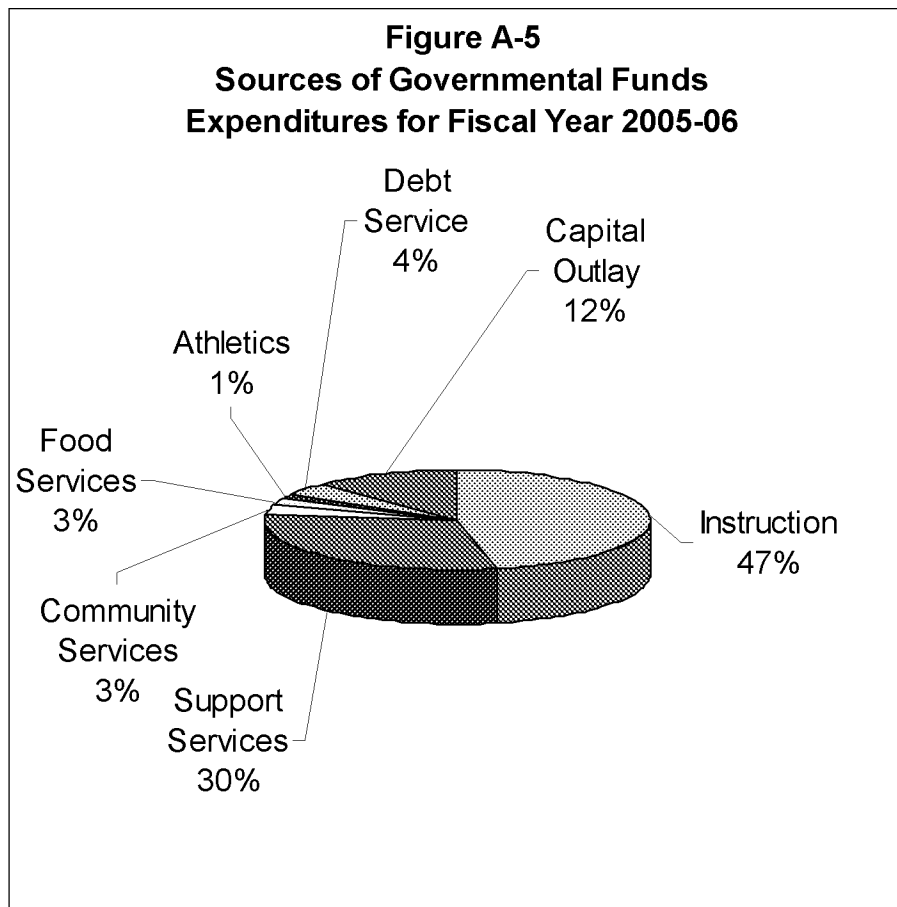


Figure A-5 on the following page, reflects the breakdown by functional category of \$36,008,960 in expenditures for the district's governmental funds for 2005-06. Direct classroom instruction totaling \$16,769,085 is the largest category. Support services includes library services, counselors, special education services, administration, clerical staff, maintenance/custodial staff, utilities, insurance, and transportation services and totaled \$10,972,766. Community services include the Head Start grant and all early childhood tuition and day care program expenses. The remaining categories are self-explanatory.

**Fruitport Community Schools, Fruitport, Michigan
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**



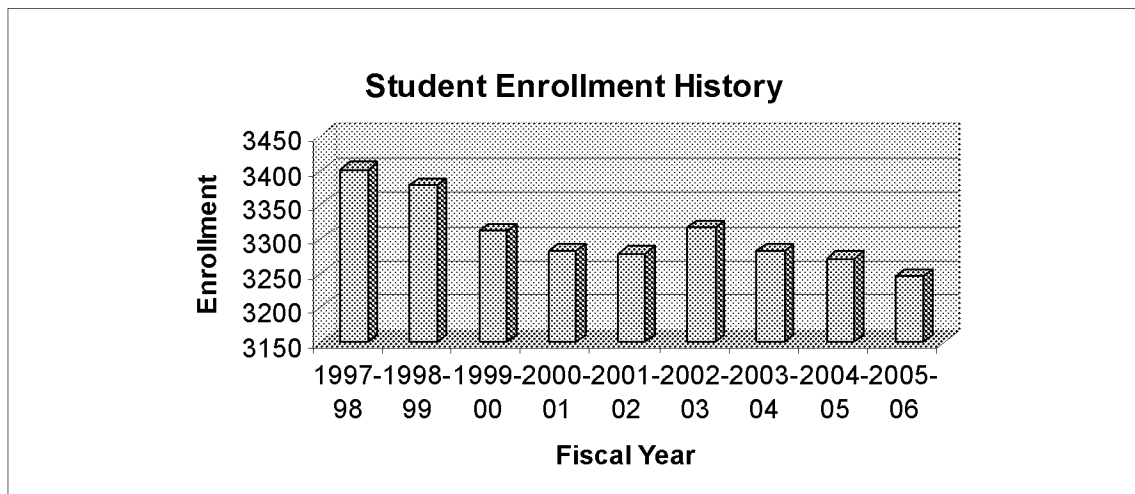
The stable financial performance of the district as a whole is reflected in its governmental funds as well. Although the combined governmental funds equity decreased by \$4,311,550 during the 2005-06 fiscal year, the fund equity was 5.9 million at year end. The primary factors affecting the district's governmental funds' fund balance are listed below.

**Fruitport Community Schools, Fruitport, Michigan
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Factors Decreasing Fund Equity

- *2003 Bond Issue* - \$4.1 million of the \$4.3 million decrease in fund equity was a direct result of spending the 2003 bond issue on capital improvements.
- *Decreased enrollment* – The district's enrollment was less than originally projected. The actual blended student count for which the district receives state aid was 3,249.68 in 2005-06 as compared to the previous year of 3,269.22 (see Figure A-6). This downward trend is projected to continue in the future. Declining birthrates will significantly lower future kindergarten enrollments. Schools of choice students also have the potential of lowering enrollments.

Figure A-6



- *Insurance premium increases* - The district's cost for health insurance premiums increased over the previous year approximately 12%. Employee health insurance premiums are the fastest growing cost in the budget.
- *Employee retirement increase* – The district's cost for mandatory retirement subsidy increased 1.47% for all employees.
- *Diesel fuel increase* – The cost of diesel fuel increased 52% over the previous fiscal year.

**Fruitport Community Schools, Fruitport, Michigan
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the district amends its budget periodically during the year. These revisions are made in order to deal with unexpected changes in revenues and expenditures, which could not have been anticipated when the original budget is adopted. The final amendment to the operating budget was adopted by the Board in June 2006. A schedule showing the district's original and final adopted budgets, as well as final actual revenue and expense, is provided in the annual report. The following analysis describes the major reasons for changes in the budget during the year.

Revenues – There was less than 1% change in the total General Fund revenue budget from the beginning to the end of the year. The adjustments to the general operating budget to more accurately reflect current revenues can be summarized as follows:

- State revenue was adjusted to reflect a decrease in enrollment.
- Two grant awards were not entirely expended during the 2004-05 fiscal year, so they were deferred into the 2005-06 fiscal year, resulting in budget variances.

Expenditures – There was less than a 1% decrease in the total General Fund expenditures and other financing uses budget from the beginning to the end of the year. The adjustments to the general operating budget to more accurately reflect current expenses are summarized as follows:

- Salary budgets for professional staff were increased to account for salary increases for 2005-06 fiscal year.
- Funds were transferred to the internal service fund to complete the district's retirement incentive obligation.
- Unspent instructional resource dollars were placed in the designated fund balance to be used for class size reduction in 2006-07.

The revenue budget to actual variance was less than one-half percent under budget. Local revenue sources were over budget due to increased interest earnings, property tax, and transportation reimbursement (transportation reimbursement was offset by higher expense). In total, the negative variance in federal revenue projection was offset by a positive variance in expenditures.

**Fruitport Community Schools, Fruitport, Michigan
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

The major expenditure variances were threefold: 1) The variance in added needs was a result of budgeting the total grant allocation rather than the projected expenditures, 2) the negative variance in administration primarily represents a retirement severance payment at year end; and 3) the variance in outgoing transfers and fund modifications was due to a higher than anticipated special education billing at year-end. Overall, the expenditures were budgeted conservatively and under budget. Additionally, unspent grant funds of \$202,839 will be carried over to the 2006-07 fiscal year.

Capital Assets and Debt Administration

Capital Assets - A summary of the District's capital assets, net of depreciation, at year end is outlined in figure A-7. Additional information on the district's capital assets can be found in Note D of the Notes to the Financial Statements on pages 20 – 21 of this report. The District funded most of the current year additions with the September 2003 bond issue. The District enhanced facilities, including parking lots and technology infrastructure.

**Figure A-7
Summary of Capital Assets (Net of Depreciation)**

	June 30,	
	2006	2005
Land	\$ 25,000	\$ 25,000
Land improvements	327,899	368,293
Building and improvements	11,712,441	11,962,832
Furniture and equipment	1,091,166	1,026,027
Vehicles	864,395	1,048,634
Construction in progress	7,133,951	3,077,220
Total	<u>\$ 21,154,852</u>	<u>\$ 17,508,006</u>

**Fruitport Community Schools, Fruitport, Michigan
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Debt Administration – A comparative summary of the District's indebtedness at year end is outlined in figure A-8 on this page.

The 1998 Durant bond issue is an obligation paid by the state. The 2005-06 payment was made by the state.

Under Michigan statute, the District is legally restricted from incurring long-term bonded debt in excess of 15% of the assessed value of taxable property within the school district. At June 30, 2006 the District's net bonded debt of \$570,000 was well below the legal limit of approximately \$76.3 million.

Additional information on the Fruitport Community Schools' long-term debt can be found in Note G of the Notes to the Financial Statements on pages 22 - 24.

**Figure A-8
Summary of Indebtedness**

	June 30,	
	2006	2005
Balance of 1997 bond issue	\$ 440,000	\$ 855,000
Balance of 2002 energy conservation bond issue	570,000	650,000
1998 Durant bond issue	395,635	428,067
Balance of 2003 bond issue	7,620,000	7,880,000
Balance of 2005 refunding of 1997	9,597,232	9,349,447
Fiber Optic Network Financing	116,175	132,772
Compensated absences	622,146	584,651
Total	<u>\$ 19,361,188</u>	<u>\$ 19,879,937</u>

**Fruitport Community Schools, Fruitport, Michigan
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Factors Bearing on the District's Future

There are several factors bearing on the district's general fund future. The most important one is the structural revenue deficit at the state level for the funding of schools. State aid per pupil foundation in 2005-06 increased to \$6,875, which represented an increase of \$175 per pupil. This was the first year the district received an increase in four consecutive years. The economy remains slow in the State of Michigan. The current state revenue estimates continue to decline.

Schools are funded at the state level on the number of students they educate. The long term projected enrollment reflects a decrease of approximately 30-40 students per year. It is very difficult to decrease staffing levels for this many students because the loss is not distributed by only one grade.

While revenues are remaining the same or reflecting a slight increase, many costs are increasing. The fastest growing cost in the budget is employee health insurance, as is the case nationally in all industries. For the last three years, employee health insurance has increased on the average of 14% per year; it is projected to increase 10% per year for the next several years.

The next fastest growing cost in the budget is employee retirement. Due to health care costs for retirees and low interest rates, the state has imposed a higher retirement rate on all salaries and wages paid to all school employees. For 2006-07 this rate increased from 16.34% to 17.74% (an increase of 1.4%); for the next several years it is projected to increase approximately 2% per year.

All of these factors place a heavy burden on the district's general fund equity. While the district's general fund equity is at the level recommended by auditors and other professionals, it will be a challenge to keep it at this level with all the needs we may be otherwise unable to fund.

Capital projects included reconfiguration of the parking lots, addition to the bus maintenance facility, technology equipment, blinds, whiteboards, district signage, and school furniture. Existing long-term debt will be retired by the year 2028.

**Fruitport Community Schools, Fruitport, Michigan
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Requests for Information

This financial report is designed to provide the district's citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances, and to show how the District is accountable for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Ms. Pamela M. Kihn, Executive Director of Management Services, Fruitport Community Schools, 3255 East Pontaluna Rd., Fruitport, MI 49415, telephone number 231.865.4009.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 27, 2006

Board of Education
Fruitport Community Schools
Fruitport, Michigan


We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fruitport Community Schools (the School District), as of and for the year ended June 30, 2006, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fruitport Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fruitport Community Schools, as of June 30, 2006, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated October 27, 2006, on our consideration of Fruitport Community Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i - xiii and 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Fruitport Community Schools
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 3,366,838
Investments	1,042,637
Receivables	490,234
Due from other governmental units	5,278,489
Inventories	6,172
Prepaid items	30,963
Total current assets	10,215,333
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	7,158,951
Depreciable	13,995,901
Bond issuance costs, net	241,729
Note and interest receivable	438,169
Total noncurrent assets	21,834,750
Total assets	32,050,083
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	3,818,357
Due to other governmental units	338,719
Deferred revenue	260,527
Bonds and other obligations, due within one year	835,566
Total current liabilities	5,253,169
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	18,525,622
Accrued interest	42,534
Total noncurrent liabilities	18,568,156
Total liabilities	23,821,325
NET ASSETS	
Invested in capital assets, net of related debt	2,689,972
Restricted for debt service	266,805
Unrestricted	5,271,981
Total net assets	\$ 8,228,758

The accompanying notes are an integral part of this statement.

Fruitport Community Schools
STATEMENT OF ACTIVITIES
For the year ended June 30, 2006

<i>Functions/Programs</i>	Expenses	Program Revenue		Net (Expense)
		Charges for services	Operating grants and contributions	Revenue and Changes in Net Assets
<i>Governmental activities</i>				<i>Governmental activities</i>
Instruction	\$ 17,541,891	\$ 775,980	\$ 1,863,481	\$ (14,902,430)
Support services	11,196,750	458,516	2,460,262	(8,277,972)
Community services	950,077	588,435	398,118	36,476
Food services	924,805	450,237	509,149	34,581
Athletics	466,134	75,589	-	(390,545)
Interest on long-term debt	1,036,841	-	-	(1,036,841)
Unallocated depreciation and amortization	87,472	-	-	(87,472)
Total governmental activities	<u>\$ 32,203,970</u>	<u>\$ 2,348,757</u>	<u>\$ 5,231,010</u>	(24,624,203)
<i>General revenues</i>				
Property taxes levied for				
General purposes				2,765,349
Debt service				1,360,681
Grants and contributions not restricted to specific programs				19,886,549
Investment earnings				343,389
Miscellaneous				61,032
Total general revenues				<u>24,417,000</u>
Change in net assets				(207,203)
Net assets at July 1, 2005				<u>8,435,961</u>
Net assets at June 30, 2006				<u>\$ 8,228,758</u>

The accompanying notes are an integral part of this statement.

Fruitport Community Schools
BALANCE SHEET
Governmental Funds
June 30, 2006

	General Fund	2003 Capital Projects Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and cash equivalents	\$ 1,900,411	\$ 61,796	\$ 1,312,332	\$ 3,274,539
Investments	1,042,603	34	-	1,042,637
Receivables	468,225	-	8,933	477,158
Due from other governmental units	5,270,887	-	7,602	5,278,489
Due from other funds	36,059	-	57,125	93,184
Inventories	-	-	6,172	6,172
Prepaid items	29,484	-	1,479	30,963
Total assets	<u>\$ 8,747,669</u>	<u>\$ 61,830</u>	<u>\$ 1,393,643</u>	<u>\$ 10,203,142</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 97,797	\$ 29,397	\$ 4,880	\$ 132,074
Accrued liabilities	3,421,390	-	36,234	3,457,624
Due to other governmental units	338,594	-	125	338,719
Due to other funds	57,125	-	36,059	93,184
Deferred revenue	250,576	-	9,951	260,527
Total liabilities	4,165,482	29,397	87,249	4,282,128
Fund balances				
Reserved				
Inventories	-	-	6,172	6,172
Prepaid items	29,484	-	1,479	30,963
Debt service	-	-	266,805	266,805
Capital projects	-	32,433	-	32,433
Unreserved				
Designated for class size reduction	202,839	-	-	202,839
Undesignated				
General Fund	4,349,864	-	-	4,349,864
School service	-	-	124,649	124,649
Capital projects	-	-	907,289	907,289
Total fund balances	<u>4,582,187</u>	<u>32,433</u>	<u>1,306,394</u>	<u>5,921,014</u>
Total liabilities and fund balances	<u>\$ 8,747,669</u>	<u>\$ 61,830</u>	<u>\$ 1,393,643</u>	<u>\$ 10,203,142</u>

The accompanying notes are an integral part of this statement.

Fruitport Community Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**

June 30, 2006

Total fund balance—governmental funds		\$ 5,921,014
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not current financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 32,140,676	
Accumulated depreciation	<u>(10,985,824)</u>	21,154,852

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	337,506	
Accumulated amortization	<u>(95,777)</u>	241,729

Other long-term note and interest receivable in governmental activities is not reported in the
governmental funds.

451,245

Accrued interest in governmental activities is not reported in the governmental funds.

(178,894)

Long-term liabilities in governmental activities are not due and payable in the current period
and are not reported in the governmental funds.

Bonds and notes payable	(18,739,042)	
Compensated absences	<u>(622,146)</u>	<u>(19,361,188)</u>

Net assets of governmental activities in the Statement of Net Assets		\$ <u><u>8,228,758</u></u>
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The accompanying notes are an integral part of this statement.

Fruitport Community Schools
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2006

	General Fund	2003 Capital Projects Fund	Other governmental funds	Total governmental funds
REVENUES				
Local sources				
Property taxes	\$ 2,765,349	\$ -	\$ 1,360,681	\$ 4,126,030
Investment earnings	170,081	88,030	70,853	328,964
Fees and charges	804,949	-	525,826	1,330,775
Other	64,668	-	563,965	628,633
Total local sources	<u>3,805,047</u>	<u>88,030</u>	<u>2,521,325</u>	<u>6,414,402</u>
State sources	20,676,931	-	169,863	20,846,794
Federal sources	2,225,062	-	453,342	2,678,404
Total revenues	<u>26,707,040</u>	<u>88,030</u>	<u>3,144,530</u>	<u>29,939,600</u>
EXPENDITURES				
Instruction	16,769,085	-	-	16,769,085
Support services	10,972,766	-	-	10,972,766
Community services	401,241	-	548,836	950,077
Food services	-	-	924,072	924,072
Athletics	-	-	429,977	429,977
Debt service				
Principal	-	-	787,432	787,432
Interest and other charges	-	-	788,914	788,914
Capital projects	-	4,157,037	229,600	4,386,637
Total expenditures	<u>28,143,092</u>	<u>4,157,037</u>	<u>3,708,831</u>	<u>36,008,960</u>
Excess (deficiency) of revenues over (under) expenditures	(1,436,052)	(4,069,007)	(564,301)	(6,069,360)
OTHER FINANCING SOURCES (USES)				
Transfers from other governmental units and other transactions	2,089,794	-	-	2,089,794
Transfers in	20,000	-	453,001	473,001
Transfers out	(453,001)	-	(20,000)	(473,001)
Transfers to other governmental units and other transactions	(331,984)	-	-	(331,984)
Total other financing sources (uses)	<u>1,324,809</u>	<u>-</u>	<u>433,001</u>	<u>1,757,810</u>
Net change in fund balances	(111,243)	(4,069,007)	(131,300)	(4,311,550)
Fund balances at July 1, 2005	<u>4,693,430</u>	<u>4,101,440</u>	<u>1,437,694</u>	<u>10,232,564</u>
Fund balances at June 30, 2006	<u>\$ 4,582,187</u>	<u>\$ 32,433</u>	<u>\$ 1,306,394</u>	<u>\$ 5,921,014</u>

The accompanying notes are an integral part of this statement.

Fruitport Community Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2006

Net change in fund balances—total governmental funds \$ (4,311,550)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (782,387)	
Capital outlay	<u>4,400,132</u>	3,617,745

Receipt of principal on note receivable is a revenue in the governmental funds, but the receipt reduces noncurrent assets in the Statement of Net Assets.	(32,432)
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Interest income on long-term note receivable is recorded in the Statement of Activities when earned, but is not reported in governmental funds until received.	(195)
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Bond premiums and refunding deferrals are amortized over time in the Statement of Activities, but are recorded in full in the year received in the governmental funds.	(247,785)
--	-----------

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	804,029
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.	480
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	<u>(37,495)</u>
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Change in net assets of governmental activities	<u><u>\$ (207,203)</u></u>
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The accompanying notes are an integral part of this statement.

Fruitport Community Schools
STATEMENT OF NET ASSETS
Internal Service Funds
June 30, 2006

ASSETS

Cash	\$ 92,299
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LIABILITIES AND NET ASSETS

Liabilities

Accrued liabilities	<u>92,299</u>
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Net assets

Unrestricted	<u><u>\$ -</u></u>
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The accompanying notes are an integral part of this statement.

Fruitport Community Schools
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Internal Service Funds
For the year ended June 30, 2006

REVENUES

Charges for services	\$ 92,299
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EXPENSES

Costs of services	<u>92,299</u>
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Change in net assets	-
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Net assets at July 1, 2005	<u>-</u>
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Net assets at June 30, 2006	<u><u>\$ -</u></u>
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The accompanying notes are an integral part of this statement.

Fruitport Community Schools
STATEMENT OF CASH FLOWS
Internal Service Funds
For the year ended June 30, 2006

Cash flows from operating activities	
Payments from other funds for services	\$ 92,299
Payments for interfund services used	<u>(150,000)</u>
Net decrease in cash	(57,701)
Cash balances at July 1, 2005	<u>150,000</u>
Cash balances at June 30, 2006	<u><u>\$ 92,299</u></u>
 Cash flows from operating activities	
Change in net assets	\$ -
Adjustments to reconcile change in net assets	
to net cash used for operating activities	
Decrease in accrued liabilities	<u>(57,701)</u>
Net cash used for operating activities	<u><u>\$ (57,701)</u></u>

The accompanying notes are an integral part of this statement.

Fruitport Community Schools
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2006

	Agency funds
ASSETS	
Cash and cash equivalents	\$ 261,066
LIABILITIES	
Deposits held for others	\$ 261,066

The accompanying notes are an integral part of this statement.

Fruitport Community Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Fruitport Community Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Fruitport Community Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds, internal service funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *2003 Capital Projects Fund* accounts for the use of the proceeds from the 2003 School Building and Site Bonds. The Bonds were approved for issuance on September 23, 2003 and may be used for school building and site purposes.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service, athletic and community service activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The remaining *capital projects funds* account for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

Internal service funds – Internal service funds account for early retirement incentives on a cost reimbursement basis.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Fruitport Community Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the internal service fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

Proprietary funds' operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's internal service funds are charges to customers for sales and services. Operating expenses for internal service funds include the cost of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30, 2006 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Fruitport Community Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of July 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is September 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. For the year ended June 30, 2006, the School District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18.0
Debt service fund - Homestead and non-homestead	3.0

Fruitport Community Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Inventories

Food service inventory is valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and is recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories of individual assets less than \$5,000 as composite groups for financial reporting purposes. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	20-50 years
Buses and other vehicles	8 years
Furniture and other equipment	3-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Compensated Absences

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Fruitport Community Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Early Retirement Incentives

For district-wide financial statements, the liability for early retirement incentives is reported when legally enforceable. For fund financial statements, the liability for early retirement incentives is reported in the internal service fund when legally enforceable.

Deferred Revenue

Deferred revenue arises when assets are recorded before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets In District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fruitport Community Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Fund Equity In Fund Financial Statements

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, special revenue funds, the Building and Site Fund and the Durant Capital Projects Fund. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Executive Director of Management Services is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The School District does not consider these amendments to be significant.

Fruitport Community Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Excess of Expenditures Over Appropriations

For the year ended June 30, 2006, expenditures exceeded appropriations in school administration by \$20,543, outgoing transfers by \$54,143, community services by \$43,115 and food service by \$21,740.

School Bond Construction Compliance

The 2003 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's School Code.

Following is a summary of the revenue and expenditures in the 2003 Capital Projects Fund from the inception of the fund through June 30, 2006.

	<u>2003 Capital Projects Fund</u>
Revenue and bond proceeds	\$ 8,614,726
Expenditures	8,582,293

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2006, the School District had the following investments:

Investment Type	<u>Fair value</u>	<u>Weighted average maturity (Days)</u>	<u>Standard & Poor's or Fitch rating</u>	<u>Percent</u>
External investment pool	\$ 529,601	31	AAAm	50.8 %
External investment pool	513,036	29	AAA-V1	49.2
Total fair value	<u>\$ 1,042,637</u>			<u>100.0 %</u>
Portfolio weighted average maturity		<u>30</u>		

The School District voluntarily invests certain excess funds in external investment pools (Pools). The Pools are external investment pools of "qualified" investments for Michigan school districts. The Pools are not regulated nor are they registered with the SEC. The fair value of the School District's investments is the same as the value of the Pool shares.

Interest rate risk. In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in interest rates by using the following methods: segmented time distribution, specific identification, weighted average maturity, duration and simulation model.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Fruitport Community Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Concentration of credit risk. The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2006, \$3,214,164 of the School District's bank balance of \$3,334,579 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. For an investment this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by: limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

Foreign currency risk. The School District is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Construction in progress	3,077,220	4,056,731	-	7,133,951
Total capital assets, not being depreciated	3,102,220	4,056,731	-	7,158,951
Capital assets, being depreciated:				
Land improvements	896,731	-	-	896,731
Buildings and improvements	19,950,554	54,345	15,048	19,989,851
Furniture and equipment	1,791,084	289,056	-	2,080,140
Vehicles	2,110,234	-	95,231	2,015,003
Total capital assets, being depreciated	24,748,603	343,401	110,279	24,981,725

Fruitport Community Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE D—CAPITAL ASSETS—Continued

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Less accumulated depreciation:				
Land improvements	\$ 528,438	\$ 40,394	\$ -	\$ 568,832
Buildings and improvements	7,987,722	304,736	15,048	8,277,410
Furniture and equipment	765,057	223,917	-	988,974
Vehicles	1,061,600	184,239	95,231	1,150,608
Total accumulated depreciation	<u>10,342,817</u>	<u>753,286</u>	<u>110,279</u>	<u>10,985,824</u>
Total capital assets, being depreciated, net	<u>14,405,786</u>	<u>(409,885)</u>	<u>-</u>	<u>13,995,901</u>
Capital assets, net	<u>\$ 17,508,006</u>	<u>\$ 3,646,846</u>	<u>\$ -</u>	<u>\$ 21,154,852</u>

Depreciation

Depreciation expense has been charged to functions as follows:

Instruction	\$ 407,338
Support service	245,578
Food service	5,842
Athletics	36,157
Unallocated depreciation	<u>58,371</u>
	<u>\$ 753,286</u>

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Bond issuance costs	\$ 337,506	\$ -	\$ -	\$ 337,506
Less accumulated amortization	<u>66,676</u>	<u>29,101</u>	<u>-</u>	<u>95,777</u>
Bond issuance costs, net	<u>\$ 270,830</u>	<u>\$ (29,101)</u>	<u>\$ -</u>	<u>\$ 241,729</u>

Amortization

Amortization expense has been charged as unallocated amortization.

Fruitport Community Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2006 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 36,059
Other governmental funds	General Fund	<u>57,125</u>
		<u>\$ 93,184</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

The General Fund transferred \$359,000 to the Athletics Fund to finance operations and \$94,001 to the 2002 Energy Bond Debt Service Fund to make the debt payment. The Food Service Fund transferred \$20,000 to the General Fund to cover indirect costs.

NOTE G—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. The Education Interconnection and Consortium Agreement (EICA) and compensated absences are paid from the General Fund.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2006:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Due within</u> <u>one year</u>
Governmental activities:					
Bonds	\$ 19,162,514	\$ -	\$ 539,647	\$ 18,622,867	\$ 818,969
EICA	132,772	-	16,597	116,175	16,597
Compensated absences	<u>584,651</u>	<u>164,661</u>	<u>127,166</u>	<u>622,146</u>	<u>25,000</u>
	<u>\$ 19,879,937</u>	<u>\$ 164,661</u>	<u>\$ 683,410</u>	<u>\$ 19,361,188</u>	<u>\$ 860,566</u>

Fruitport Community Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE G—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

General obligation bonds consist of the following:

1997 General Obligation Bonds partially refunded February 2005; final payment due May 2007; plus interest of 6.25% payable semi-annually	\$ 440,000
2002 Energy Conservation Improvement General Obligation Bonds payable in annual installments ranging from \$85,000 to \$105,000 due May 2007 to 2012; plus interest ranging from 3.95% to 4.8% payable semi-annually	570,000
2003 General Obligation Bonds payable in annual installments ranging from \$260,000 to \$400,000 due May 2007 to 2028; plus interest ranging from 2.25% to 5.25% payable semi-annually	7,620,000
2005 Refunding General Obligation Bonds payable in annual installments ranging from \$480,000 to \$725,000 due May 2008 to 2022; plus interest ranging from 2.5% to 4.15% payable semi-annually	9,795,000
Plus issuance premium	9,204
Less deferred amount on refunding	(206,972)
Durant obligations payable in annual installments ranging from \$33,969 to \$158,302 including interest at 4.76% due May 2007 to 2013. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations.	<u>395,635</u>
Total bonded debt	18,622,867
Education Interconnection and Consortium Financing Agreement payable in annual installments of \$16,597 due March 2007 to 2013	116,175
Compensated absences	<u>622,146</u>
	<u>\$ 19,361,188</u>

Fruitport Community Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE G—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

The annual requirements of principal and interest to amortize bonded debt and the Education Interconnection and Consortium Financing Agreement outstanding as of June 30, 2006 follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 835,566	\$ 752,783	\$ 1,588,349
2008	882,192	714,457	1,596,649
2009	1,089,899	743,899	1,833,798
2010	995,661	659,510	1,655,171
2011	1,032,521	626,697	1,659,218
2012-2016	5,085,971	2,574,412	7,660,383
2017-2021	5,490,000	1,542,003	7,032,003
2022-2026	2,725,000	511,088	3,236,088
2027-2028	800,000	57,000	857,000
	<u>\$ 18,936,810</u>	<u>\$ 8,181,849</u>	<u>\$ 27,118,659</u>

NOTE H—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Fruitport Community Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE H—EMPLOYEE BENEFITS—Continued

Employee Retirement System – Defined Benefit Plan—Continued

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006 was 16.34 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the year ended June 30, 2006, 2005 and 2004 were approximately \$2,720,000, \$2,391,000 and \$2,098,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE I—COMMITMENTS AND CONTINGENCIES

Commitments

- **Construction Contracts** – As of June 30, 2006, the School District had awarded construction contracts totaling approximately \$6,447,000 of which \$6,332,000 of expenses had been incurred. The contracts are the obligations of the 2003 Capital Projects Fund and the School District.
- **Operating Leases** – The School District leases several copy machines with five year lease terms through December 2008 requiring aggregate minimum monthly payments of \$16,300. Expense for the year ended June 30, 2006 was approximately \$194,000.

Contingencies

- **Federal Programs** – The School District participates in federally-assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Fruitport Community Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE J—OTHER INFORMATION

Economic Dependence – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 78 percent of General Fund revenues.

Risk Management – The School District is a member of the West Michigan Risk Management Trust, a self-insurance program with 23 districts pooling together to insure property, liability, and auto exposure. Premiums from members of the Trust are determined through standard underwriting procedures. The members of the Trust have contributed amounts sufficient to fund individual and aggregate losses up to \$175,000 and \$650,000, respectively, on an annual basis. Excess insurance has been purchased to cover claims exceeding those amounts. A \$1,000 per occurrence deductible for property losses is maintained. The District paid \$117,711 in premiums to the Trust for the year ended June 30, 2006.

The School District is also a member of the West Michigan Workers' Compensation Fund, a self-insurance program with 17 districts pooling together to insure workers' compensation and employers' liability exposures. The Fund pays the first \$300,000 of any workers' compensation or employers' liability loss out of an \$800,000 loss fund collected from members. Excess insurance has been purchased to cover claims exceeding those amounts. As of June 30, 2006, there were no material pending claims against the School District. The School District paid \$122,800 in premiums to the Fund for the year ended June 30, 2006.

Health, life, and other employee insurance is provided by private insurance carriers. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

REQUIRED SUPPLEMENTARY INFORMATION

Fruitport Community Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2006

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 2,998,107	\$ 3,452,115	\$ 3,805,047	\$ 352,932
State sources	21,182,964	20,753,970	20,676,931	(77,039)
Federal sources	2,651,634	2,544,771	2,225,062	(319,709)
Incoming transfers and other transactions	1,973,944	2,133,964	2,109,794	(24,170)
Total revenues	28,806,649	28,884,820	28,816,834	(67,986)
EXPENDITURES				
Instruction				
Basic programs	12,173,483	12,092,303	12,052,241	40,062
Added needs	4,806,409	4,915,904	4,643,796	272,108
Adult and continuing education	73,637	86,637	73,048	13,589
Support services				
Pupil	2,848,309	2,883,031	2,804,193	78,838
Instructional staff	1,604,079	1,387,192	1,329,006	58,186
General administration	652,873	639,400	595,227	44,173
School administration	1,344,728	1,322,391	1,342,934	(20,543)
Business	465,594	488,978	483,156	5,822
Operations and maintenance	2,503,654	2,605,518	2,551,293	54,225
Pupil transportation services	1,689,312	1,596,085	1,509,015	87,070
Central	239,251	363,096	357,942	5,154
Community services	630,158	496,379	401,241	95,138
Outgoing transfers and other transactions	707,180	730,842	784,985	(54,143)
Total expenditures	29,738,667	29,607,756	28,928,077	679,679
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(932,018)</u>	\$ <u>(722,936)</u>	(111,243)	\$ <u>611,693</u>
Fund balances at July 1, 2005			<u>4,693,430</u>	
Fund balances at June 30, 2006			\$ <u>4,582,187</u>	

Fruitport Community Schools
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2006

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 27, 2006

Board of Education
Fruitport Community Schools
Fruitport, Michigan

We have audited the financial statements of Fruitport Community Schools as of and for the year ended June 30, 2006 and have issued our report thereon dated October 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

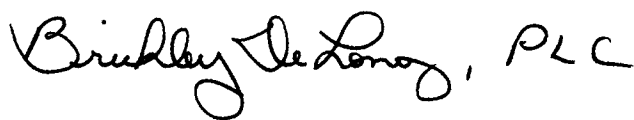
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fruitport Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Fruitport Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 27, 2006

Board of Education
Fruitport Community Schools
Fruitport, Michigan

Compliance

We have audited the compliance of Fruitport Community Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Fruitport Community Schools' major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Fruitport Community Schools' management. Our responsibility is to express an opinion on Fruitport Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fruitport Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Fruitport Community Schools' compliance with those requirements.

In our opinion, Fruitport Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Fruitport Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Fruitport Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Board of Education
October 27, 2006
Page 2

Internal Control Over Compliance—Continued

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Fruitport Community Schools as of and for the year ended June 30, 2006 and have issued our report thereon dated October 27, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

Fruitport Community Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006	Adjustments	Notes
					Prior year	Current year	Total			
U.S. Department of Education										
Passed through Michigan Department of Education										
Title I	84.010									
051530 0405		\$ 270,984	\$ 37,454	\$ 37,454	\$ 270,985	\$ -	\$ 270,985	\$ -	\$ -	4
051530 0506		44,604	-	44,604	-	44,604	44,604	-	-	
061530 0506		341,361	-	228,554	-	300,639	300,639	72,085	-	
		<u>656,949</u>	<u>37,454</u>	<u>310,612</u>	<u>270,985</u>	<u>345,243</u>	<u>616,228</u>	<u>72,085</u>	<u>-</u>	
Title V	84.298									
040250 0405		2,136	131	131	2,136	-	2,136	-	-	
Technology Literacy Challenge	84.318									
054290 0506		6,264	-	4,720	-	6,264	6,264	1,544	-	
064290 0506		6,368	-	4,019	-	5,174	5,174	1,155	-	
		<u>12,632</u>	<u>-</u>	<u>8,739</u>	<u>-</u>	<u>11,438</u>	<u>11,438</u>	<u>2,699</u>	<u>-</u>	
Improving Teacher Quality	84.367									
050520 0405		63,348	(17,904)	(17,902)	63,346	-	63,346	-	(2)	5
050520 0506		39,328	-	39,328	-	39,328	39,328	-	-	
060520 0506		102,793	-	92,793	-	102,793	102,793	10,000	-	
		<u>205,469</u>	<u>(17,904)</u>	<u>114,219</u>	<u>63,346</u>	<u>142,121</u>	<u>205,467</u>	<u>10,000</u>	<u>(2)</u>	
Total passed through Michigan Department of Education		877,186	19,681	433,701	336,467	498,802	835,269	84,784	(2)	
Passed through Muskegon Area Intermediate School District										
Adult Basic Education	84.002									
061130 610586		10,466	-	9,012	-	10,466	10,466	1,454	-	
Special Education Cluster (IDEA)										
PL 101-476 Flowthrough	84.027									
050450 0405		1,403,071	285,100	287,322	1,400,849	2,222	1,403,071	-	-	
060450 0506		1,596,039	-	1,054,837	-	1,331,688	1,331,688	276,851	-	
		<u>2,999,110</u>	<u>285,100</u>	<u>1,342,159</u>	<u>1,400,849</u>	<u>1,333,910</u>	<u>2,734,759</u>	<u>276,851</u>	<u>-</u>	
PL 101-476 Preschool	84.173									
040460 0304		80,171	1,633	1,633	80,171	-	80,171	-	-	
050460 0405		81,133	18,374	31,119	68,388	12,745	81,133	-	-	
060460 0506		92,263	-	54,888	-	59,713	59,713	4,825	-	
		<u>253,567</u>	<u>20,007</u>	<u>87,640</u>	<u>148,559</u>	<u>72,458</u>	<u>221,017</u>	<u>4,825</u>	<u>-</u>	
Total Special Education Cluster (IDEA)		3,252,677	305,107	1,429,799	1,549,408	1,406,368	2,955,776	281,676	-	
Drug Free Schools and Communities Act	84.186									
052860 0405		12,238	9,942	9,942	9,942	-	9,942	-	-	
062860 0506		12,238	-	2,850	-	7,408	7,408	4,558	-	
		<u>24,476</u>	<u>9,942</u>	<u>12,792</u>	<u>9,942</u>	<u>7,408</u>	<u>17,350</u>	<u>4,558</u>	<u>-</u>	
Total passed through Muskegon Area Intermediate School District		3,287,619	315,049	1,451,603	1,559,350	1,424,242	2,983,592	287,688	-	
Total U.S. Department of Education		4,164,805	334,730	1,885,304	1,895,817	1,923,044	3,818,861	372,472	(2)	

Fruitport Community Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)		Expenditures (accrual basis)		Accrued (deferred) revenue June 30, 2006	Adjustments	Notes
					Prior year	Current year	Total			
<i>U.S. Department of Agriculture</i>										
Passed through Michigan										
Department of Education										
National School Lunch and Breakfast										
Entitlement Commodities	10.550	\$ 15,931	\$ -	\$ 15,931	\$ -	\$ 15,931	\$ 15,931	\$ -	\$ -	
Bonus Commodities		8,621	-	8,621	-	8,621	8,621	-	-	
		24,552	-	24,552	-	24,552	24,552	-	-	
Child Nutrition Cluster										
051970 Lunch—Breakfast	10.553	70,928	-	6,633	64,295	6,633	70,928	-	-	
061970 Lunch—Breakfast		78,007	-	78,007		78,007	78,007	-	-	
		148,935	-	84,640	64,295	84,640	148,935	-	-	
051950 All Lunches	10.555	50,798	-	6,086	44,712	6,086	50,798	-	-	
051960 Free and Reduced		258,727	-	30,789	227,938	30,789	258,727	-	-	
061950 All Lunches		51,569	-	51,569	-	51,569	51,569	-	-	
061960 Free and Reduced		254,307	-	254,307	-	254,307	254,307	-	-	
		615,401	-	342,751	272,650	342,751	615,401	-	-	
051940 Special Milk	10.556	854	-	50	804	50	854	-	-	
061940 Special Milk		1,349	-	1,349	-	1,349	1,349	-	-	
		2,203	-	1,399	804	1,399	2,203	-	-	
Total Child Nutrition Cluster		766,539	-	428,790	337,749	428,790	766,539	-	-	
Total passed through Michigan Department of Education and U.S. Department of Agriculture		791,091	-	453,342	337,749	453,342	791,091	-	-	
<i>U.S. Department of Health and Human Services</i>										
Passed through Muskegon Area										
Intermediate School District										
Medical Assistance Program Title XIX 393	93.778	34,300	-	34,300	-	34,300	34,300	-	-	
Head Start	93.600									
05CH8258/06		254,547	38,978	155,438	138,087	116,460	254,547	-	-	
05CH8258/07		151,472	-	133,167	-	151,472	151,472	18,305	-	
		406,019	38,978	288,605	138,087	267,932	406,019	18,305	-	
Total U.S. Department of Health and Human Services		440,319	38,978	322,905	138,087	302,232	440,319	18,305	-	
TOTAL FEDERAL ASSISTANCE		\$ 5,396,215	\$ 373,708	\$ 2,661,551	\$ 2,371,653	\$ 2,678,618	\$ 5,050,271	\$ 390,777	\$ (2)	

Fruitport Community Schools
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2006

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
3. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report schedule of expenditures of federal awards.

Revenues from federal sources per June 30, 2006

Governmental Funds financial statements

General Fund	\$ 2,225,062	
Other governmental funds (includes Food Service Fund)	<u>453,342</u>	\$ 2,678,404

Adjustment per note 4 below	216
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Rounding adjustment from note 5 that reduced revenue in the financial statements	<u>(2)</u>
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Expenditures per single audit report

Schedule of Expenditures of Federal Awards	\$ <u><u>2,678,618</u></u>
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4. The June 30, 2005 financial statements and SEFA had a variance of \$216 for the Title I due from other governmental units. The SEFA was correct and the financial statement due from other governmental units was high. The variance was adjusted through the current year Title I revenue in the financial statements.
5. The DS-4044 Final Expenditure Report filed after the June 30, 2005 audit reported expenditures that were \$2 more than the June 30, 2005 SEFA reported.

Fruitport Community Schools
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2006

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Fruitport Community Schools.
2. *No* reportable conditions in internal control were disclosed by the audit of the financial statements.
3. *No* instances of noncompliance material to the financial statements of Fruitport Community Schools were disclosed during the audit.
4. *No* reportable conditions in internal control were disclosed by the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for Fruitport Community Schools expresses an unqualified opinion.
6. There were *no* audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Education</i>	
Title I	84.010
Special Education Cluster	84.024 and 84.173

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Fruitport Community Schools was not determined to be a low-risk auditee.

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

NONE

C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

NONE

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

October 27, 2006

Michigan Department of Education
Lansing, Michigan

Fruitport Community Schools respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2005 dated October 31, 2005.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

U.S. Department of Education

Fiscal 2005 Finding No. 1: Allowable Costs/Cost Principles

21st Century

CFDA: 84.287

Award Number: S287B011265-03

Award Year Ended: May 31, 2005

Condition: During our audit of the financial statements, we noted that computers were purchased during the last month of the grant. The approved grant budget authorized the purchase of software, but it did not authorize these computer purchases.

Recommendation: The School District should consult with its grantor agency and/or the U.S. Department of Education to determine if these purchases are allowable.

Current Status: Fruitport Community Schools (FCS) mailed an appeal letter to the U.S. Department of Education on August 31, 2006. FCS has not received a response to the appeal letter as of the date of this status letter.

REPORTABLE CONDITIONS

Fiscal 2005 Finding No. 2: Month End Closing Procedures

Condition: During our audit, we noted that a number of balance sheet account balances were materially misstated for significant periods of time during the fiscal year ended June 30, 2005.

Recommendation: The School District's balance sheet account balances should be reviewed and adjusted on a monthly basis.

Current Status: This recommendation was implemented during the year ended June 30, 2006. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

Fiscal 2005 Finding No. 3: Interfund Obligation Procedures

Condition: We noted some funds have maintained interfund liability balances while cash balances were available to satisfy the liabilities.

Recommendation: Interfund liabilities should be paid when funds are available.

Current Status: This recommendation was implemented during the year ended June 30, 2006. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

U.S. Department of Education

**Fiscal 2005 Finding No. 4: Participation of Private School Children
Title I
CFDA: 84.010
Award Number: 051530 0405
Award Year End: September 30, 2005**

Condition: During our compliance tests for Special Tests and Provisions of Participation of Private School Children, we noted there was no consultation with private school officials outside of the School District boundaries to determine the kind of educational services to provide to eligible private school children.

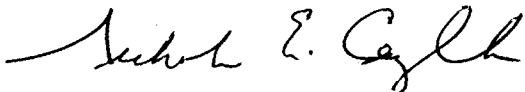
Recommendation: The School District should conduct timely consultation with private school officials to determine the kind of educational services to provide to eligible private school children to make sure the planned services are provided and to determine the required amount was used for private school children.

Current Status: This recommendation was implemented during the year ended June 30, 2006. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

REPORTABLE CONDITIONS

There were *no* reportable conditions reported in relation to major federal award programs.

Sincerely,



Nicholas Ceglarek
Superintendent

CORRECTIVE ACTION PLAN

October 27, 2006

Michigan Department of Education
Lansing, Michigan

Fruitport Community Schools respectfully submits the following Corrective Action Plan for the year ended June 30, 2006.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2006

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2006 provided *no* findings in either Section B or Section C. Accordingly, there are *no* matters requiring corrective action as shown below.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

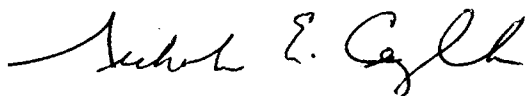
There were *no* compliance findings and *no* reportable conditions.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

There were *no* compliance findings and *no* reportable conditions in relation to the major federal award programs.

If the Michigan Department of Education has questions regarding this plan, please call Nicholas Ceglarek at (231) 865-3154.

Sincerely,



Nicholas Ceglarek
Superintendent